Emirates NBD

WEALTH MANAGEMENT

A temporary pause in **unpredictability**

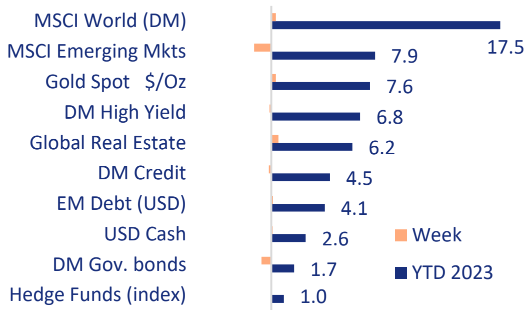
- **Economic data continued to paint a Goldilocks picture last week in the West, with slightly positive returns**
- **The week ahead is rich: policy meetings from three major central banks and a deluge of corporate earnings**
- **Our three profiles continue to do well in absolute and relative to our competitors**

Our 2023 Global Investment Outlook was titled "Adapting to Unpredictability". While we stick to the view that many surprises are on our agenda, including to some extent the loud and clear rally of the year so far, it looks like markets are currently enjoying some pause in uncertainty: consensus for a soft landing of Western economies is building, and the "Goldilocks Interlude" continues. Economic data released last week included a disappointment in US industrial production and retail sales, but reassuring jobless claims, and confirmed encouraging trends in European inflation. China's growth remains a concern, and markets are losing patience on their hopes for some massive recovery plan. Meanwhile, the early days of the Q2 corporate earnings season were in aggregate much better, again, than relatively easy to clear expectations. There were exceptions, and disappointments, mostly on guidance, for some heavy-weight names, but the big picture remains overall positive.

The week ahead will see an acceleration in the earnings season, as well as three major central banks meetings. Again, market participants seem confident, probably rightly so. The Fed and the ECB should both hike by 25 basis points, while the BoJ should continue to patiently hold on their extraordinarily accommodative stance.

We have identified this "Interlude" for months now, and our positioning clearly benefits. With +6%, +8% and +10% in rounded numbers, our returns are good in absolute and outperform our global competitors. We didn't change it, but we do not believe that unpredictability has disappeared. We are comfortable with our overweight in safe sources of income, starting with cash, as the support from investor pessimism is gradually fading. Have a great week.

ASSET CLASSES USD % TOT.RETURN, YTD 2023 & LAST WEEK



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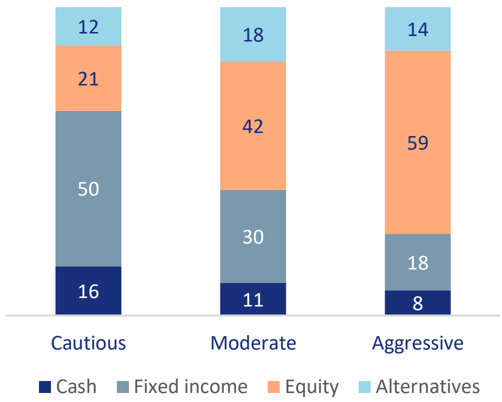
Cross-asset Update

Goldilocks has for now reasserted itself against growth scares, thanks also to the exceptional savings accumulated during the pandemic that see the services sector particularly resilient. And it can continue, with an overdue rebound of manufacturing activity. This is at least the message sent by the leading indicator of the leading indicators, the new orders to inventory ratio that in manufacturing has turned higher in the recent months. Maybe, it is not by chance that last week the S&P 500 Industrials broke out of a range and made new all-time highs. While manufacturing has been slumping and should rebound, services have surged and should moderate. Usually, this pattern is consistent with weakness of the US dollar. Again, it is not by chance that the US dollar has made fresh new lows for the year, in the process helping the easing of global financial conditions.

Overall, though markets have rallied and are expensive, there is reason to believe they can grind higher driven by cyclical stocks that year-to-date have badly underperformed. It is not by chance that the economy-sensitive Russell 2000 has bottomed out and just shot higher to the upper-end of its range. And, come year-end and activity slows substantially in the West, China should come to the rescue with its recovery finally gaining traction. Against this backdrop Treasury yields should remain range-bound, with growth not vibrant enough to justify a bond bear market, while not slumping either to warrant substantially lower yields. Overall, the traditional 60-40 equity-bond portfolio maintains its appeal this year, amidst resilient growth and the renewed diversifying power of bonds. As much as markets have surprised to the upside, sentiment has adjusted and investors are now much more complacent according to various surveys. It may not be by chance that the seasonal pattern of US equity volatility sees the VIX Index rise from a low in July-August. And so far this year the VIX has followed the pattern quite closely. Hence, while risk assets can grind higher, they are likely to do so having much less of an easy ride.

The end result is that the continuation of the Goldilocks Interlude, punctuated here and there with volatility spikes, should see the most cyclical assets catch up. This has reverberations across the emerging market area, with a rebound in manufacturing activity in the end particularly beneficial for the relative performance of EM stocks.

TACTICAL ASSET ALLOCATION: SIMPLIFIED POSITIONING

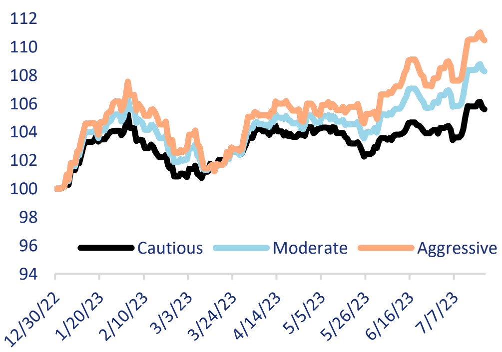


TAA – RELATIVE POSITIONING – MODERATE PROFILE

UW/N/OW: Underweight/Neutral/Overweight

	UW	N	OW
Cash			>>>>>>
DM Gov.			>>
DM Credit			>>
DM H. Yield	<<		
EM Debt	<<<		
DM Equity	<<<		
EM Equity			>>
Gold		=	
Hedge Funds	<<		
Real Estate	<		

TAA – 2023 INDICATIVE PERFORMANCE



Source: Bloomberg. CIO Office calculation based on TAA applied to market indices, net total return in USD.

Fixed Income Update

This week we have the critical Fed rate decision on Wednesday and ECB's policy rate decision a day later on Thursday as markets predict a 25bps hike by both central banks. The big focus will be on any signalling from policymakers as to whether more hikes are likely, or if they plan an extended pause, with neither central bank meeting again until September. BoJ will also take a rate decision on Friday, with more than 80% of analysts polled by Bloomberg expecting it to stick with supportive policies. Tokyo's CPI numbers come out on Friday, which may show a moderation reducing the pressure on BoJ to act soon.

The peak rate expectations for the UK have dropped from 6.68% in late June to 5.9% today. This massive drop was fuelled by surprisingly lower-than-expected inflation numbers. The annual rate of the headline CPI was down from 8.7% in May to 7.9%, lower than the 8.2% median forecast. The core measure also fell to 6.9% year-on-year from 7.1%. The breadth metrics were particularly weak, suggesting this month's inflation miss was broad-based. These are still too high but heading in the correct direction. Factory gate inflation & house price inflation are now running at 0% YoY, which will also feed through into headline prices in 2H23. The recently released hard data from the US and Eurozone indicate that the developed market inflation is moderating while activity is slowing.

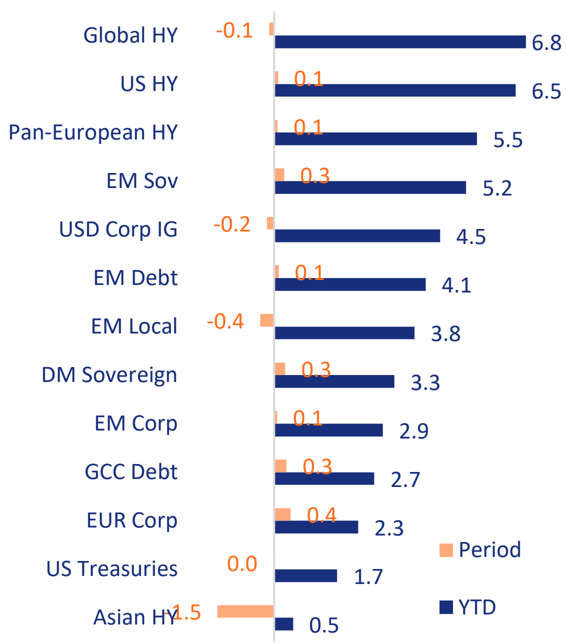
High Yield remains at the top of the returns chart for various credit segments within Fixed Income with a YTD return of 6.8%. The current spread of 475 bps is slightly above the 20-year median of 468 bps. We don't think it is a great time to take beta risk on the segments when the spreads remain tight. For Carry, we prefer US IG debt, where the average yield of 5.04% has only been surpassed during the Great Financial Crisis when the spreads blew up. Currently, the IG segment is highly correlated to Rates, and with peak rates in sight, it is not a bad time to enter the segment.

GCC issuance had gained speed with $47bn of bonds priced from the region YTD compared to $32bn for 2022. Last week as many as four issuers from the region sold bonds with solid investor demand. We have the ADIB perp, DARALA 29s, and the FAB AED 2026s on our recommended list. However, the word on the street is that we would see a slow August, with activity picking up towards August-end and early September. We continue to like GCC debt due to its high quality, offering decent carry without elevated credit risks. We prefer long-duration GREs and subordinated debt from large banks.

FIXED INCOME KEY CONVICTIONS

DEVELOPED MARKETS
OW Quality corporates
OW Government Bonds
UW High Yield
EMERGING MARKETS
Overall UW EM Debt
Favor quality and selectivity
OW Selectively Asia,

FIXED INCOME SUB ASSET CLASS RETURNS (YTD, LAST WEEK)



Source: Bloomberg

Equity Update

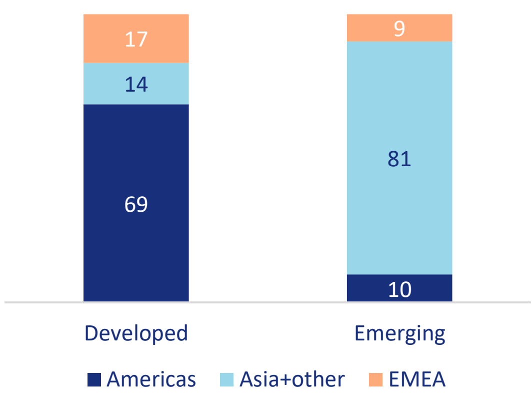
The first three weeks of July have extended the gains seen in June, with global equities adding 2.2% and taking year to date gains to 16.5%. Emerging markets performed well in the first 2 weeks of July, after a lacklustre H1, only to fizzle out by the third week (more China as Indi, GCC and LATAM were more stable). Last week saw flat performance from global equities with an exceptional rally from US regional banks which are looking to the Fed, as one more and done. It's been calm on that front recently and bank deposits haven't suffered, and we haven't seen more shocks on asset liability mismatches post March/April. Energy stocks also gained with Brent trading over $80. The week ahead will be dominated by the "Big Three" — the Fed, ECB and the Bank of Japan — holding monetary policy meetings.

US equities saw small gains last week for the S&P 500, with the Nasdaq slightly down. A warning on Thursday from the world's biggest foundry TSMC of a deepening chip downturn weighed on tech sector performance. The week's relatively strong close for the broader US market reflects optimism over receding inflation and confidence the Fed is nearly done raising interest rates. The VIX volatility Index continues to trade below 14. The S&P 500 is trading close to our 4,500 fair value, up for 4 out of the last 5 weeks and 19% total returns year to date. Valuations ticking higher with market concentration and AI optimism. Better than expected economic growth and falling inflation explain to some extent the higher yields and higher valuation. The 7 largest stocks in the S&P 500 account for 28% of the market cap and have contributed 12% of the 19% YTD total return.

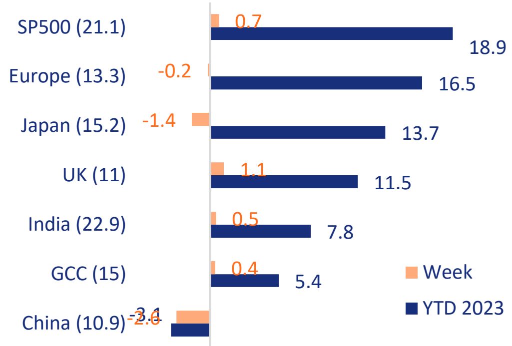
For Q2 2023 (with 18% of S&P 500 companies reporting), the blended earnings decline is tracking at -9.0%. Results from Netflix and Tesla disappointed whilst oil major Chevron and airlines had strong growth. Within financials, large banks illustrated capital markets strength, strong deposit bases, though mixed in regional banks and overall slower deposit flight. Margins are standing up well with the (blended) net profit margin for the S&P 500 for Q2 2023 estimated at 11.1%, previous quarter was 11.5% and below the 5-year average of 11.4%. This is a heavy week as about 166 S&P 500 and 850 U.S. companies are expected to report results, including several tech giants: Alphabet, Meta, Microsoft and Intel. The Nasdaq 100 special rebalancing goes into effect before today (Monday's) open. In Europe we get earnings from LVMH, Volkswagen, Airbus, Sanofi, and Unilever amongst others. Julius Baer and Philips both beat on earnings, but guidance remains important.

The UAE saw strong earnings growth and beats from two Abu Dhabi banks, FAB and ADCB and this follows a pattern of regional bank earnings in the KSA. If Brent oil stays above $80 the region could see continued positive sentiment around market performance. The global energy sector, the worst performer this year could also see gains and the big E&P companies pay high dividends, adding to a good diversification away from tech.

EQUITY RECOMMENDED REGIONAL POSITIONING

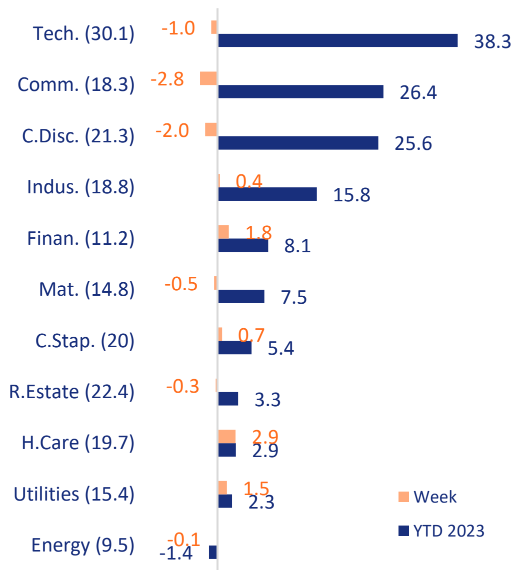


MAJOR INDICES PERFORMANCE (TR, US$) AND 2023PE



Source: Bloomberg consensus. MSCI Indices unless specified.

GLOBAL SECTOR PERFORMANCE (TR, US$) AND 2023PE



Source: Bloomberg consensus. MSCI All Country World sectors US$.

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